



Fairfax County

Internal Audit Office

**Circuit Court and Records
Business Process Audit
Final Report**

May 2017

"promoting efficient & effective local government"

Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within Circuit Court and Records. The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, open-ended purchase order payments, monthly reconciliations, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included time/attendance system and controls, attendance/absence reporting, employee clearance record processing, credit check requirements for positions of trust, and procedures for completing criminal background investigations for employment in sensitive positions or designated volunteer roles.

We found that in general the department had effective procedures and internal controls in place for the handling of purchasing functions, and transactions had adequate evidence of compliance with county policy. However, we noted the following exceptions where compliance and controls needed to be strengthened:

- Monthly FOCUS reconciliation was not completed for the review period.
- Sales taxes totaling \$159.29 were inappropriately paid on three of the thirty procurement card samples tested.
- Toners were purchased from a non-contract supplier.
- The p-card monthly spending limits were set higher than the actual usage.

Scope and Objectives

This audit was performed as part of our fiscal year 2017 Annual Audit Plan and was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives were to review Circuit Court and Records compliance with county policies and procedures for purchasing processes, personnel/payroll administration, and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included procurement card, FOCUS marketplace, purchase order, and non-purchase order transactions that occurred during the period of January 2016, through December 2016. For that period, the department's purchases were \$99,731 for procurement cards, \$43,824 for FOCUS marketplace, \$1,756,851 for purchase orders, and \$138,078 for non-purchase order payments.

Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

Findings, Recommendations, and Management Response

1. Monthly FOCUS Reconciliation

Circuit Court and Records did not perform and document monthly reconciliations of expenditure transactions to FOCUS records for the review period.

Accounting Technical Bulletin (ATB) 020, *Reconciliation of Financial Transactions*, requires all departments and agencies to perform monthly reconciliations on a timely basis (no later than the last day of the following month) at the transaction level. These reconciliations are to be carried out in accordance with the department's reconciliation plan that has been approved by the Department of Finance (DOF). Additionally, ATB 020 provides a Reconciliation Certification Form that is to be signed by the director or designee indicating that reconciliation was completed for a specific period for the financial transactions. This is to verify that the department's transactions have been reconciled and authorizer/approver verified.

Furthermore, Procurement Technical Bulleting (PTB) 12-1009, *Use of the County Procurement Card*, states that: "Agencies are required to reconcile to FOCUS on a monthly basis."

Failure to perform and document a monthly reconciliation of all expenditure documentation to data in FOCUS increases the risk that erroneous or inappropriate charges going undetected. Additionally, the reconciliation provides a means of ensuring that all charges and credits are cleared to the proper expenditure account at least monthly.

Recommendation: We recommend the department complete the FOCUS monthly reconciliations no later than the last day of the following month. In addition, Circuit Court and Records should use the Reconciliation Certification Form provided by ATB 020 to document the completion of the reconciliation of the financial transactions for a specific period. This form should be maintained on file by the agency.

Management Response: While Circuit Court & Records conducts daily, weekly and monthly reconciliations of its ledgers, it has reviewed the County's ATB 020, which applies to agencies of the County of Fairfax. Circuit Court and Records has obtained the Department of Finance's Template Form "ATB 020-A," and will begin using the Form starting May 30, 2017.

Note: Management states that this recommendation is anticipated to be completed on May 30, 2017. IAO will follow up on the recommendation after May 30, 2017.

2. Virginia Sales Tax Exemption

Virginia sales tax totaling \$159.29 was inappropriately paid on three of the thirty procurement card transactions tested. PTB 12-1009 states that most county purchases are exempt from Virginia state sales tax. The county's exempt number is printed on the face of each card.

Failure to make sure that sales tax was not charged on exempt purchases can lead to a waste of county funds.

Recommendation: Circuit Court and Records should ensure card users and purchase approvers are aware of the county's Virginia sales tax exempt status. Card users should notify vendors of the county's tax exempt status and review receipts immediately after a purchase to ensure that sales tax was not incorrectly charged. Transaction documentation and weekly transaction detail reports should be reviewed to ensure the propriety of sales tax charges. When staff who review this documentation note that sales taxes were incorrectly paid, they should contact the vendor and seek a refund. Consideration should be given to revoking the card use privileges of card users who repeatedly pay sales tax on tax exempt goods and services.

Note: IAO verified that Circuit Court had advised its staff to keep a Sales & Use Tax Exemption certificate for use with the P-card on April 20, 2017. No management response is needed for this item.

3. Procurement of Office Supplies

During the period of January 1, 2016, through December 31, 2016, Circuit Court and Records placed office supply purchase orders of \$29,443.26 from EIS Office Solutions Inc., who did not have a contract with the county. According to Procurement Technical Bulletin 12-1008, *Online Procurement Using the FOCUS Marketplace*, to ensure that the County takes advantage of the best combination of low product prices and high contract rebates, use of the office supply contract is mandatory.

Failure to purchase from county vendors can lead to a waste of county funds. The agency might not obtain the best price and quality by purchasing from a non-contract supplier.

Recommendation: Circuit Court and Records should request an exception from the mandatory use policy when a business case can be made for procuring items off-contract. When an exception is granted by the County program administrator, the written approval must be filed with the marketplace purchase order documentation for audit purposes.

Note: IAO verified that Circuit Court had requested and obtained exemption from DPMM to continue purchasing toners from EIS on March 13, 2017. No management response is needed for this item.

4. Procurement Card Limit

An analysis performed on card limitation controls for Circuit Court and Records for the period January 1, 2016 through December 31, 2016, revealed that the monthly spending limits were set higher than the actual usage for twelve p-cards. Circuit Court card numbers 2, 11, 22 and Frey p-card had zero transactions during the scope of the audit. Circuit Court card numbers 6-8, 17, 19-21, and Banasik had utilization rate of less than 20% of the card credit limit.

The County has limited dispute rights for fraudulent charges on departmental cards. Setting the procurement card limits higher than necessary increases the county's exposure in the event the card is lost, stolen or improperly used by a county employee.

Recommendation: We recommend Circuit Court and Records to close or reduce the card limit for these twelve p-cards.

Management Response: Because Circuit Court and Records provides the operational and administrative support to all 15 judges of the Fairfax Circuit Court, it maintains P-cards for approved use. Circuit Court and Records has lowered the card limits to \$0 for card number 2, 8, 11, 17, 21, and 22, while keeping the cards open and available, for required use.

Note: IAO verified that the card limits had lowered to \$0 on May 8, 2017. No management follow up is needed for this item.